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**FISCAL IMPACT STATEMENT**

**LS 6387**

**BILL NUMBER:** SB 255

**NOTE PREPARED:** Dec 22, 2004

**BILL AMENDED:**

**SUBJECT:** Single-Factor Apportionment.

**FIRST AUTHOR:** Sen. Ford

**BILL STATUS:** As Introduced

**FIRST SPONSOR:**

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State

**Summary of Legislation:** This bill provides that, for purposes of the Adjusted Gross Income Tax, business income is apportioned based on the sales factor. The bill eliminates the property factor and payroll factor that are also used in apportioning income.

**Effective Date:** January 1, 2006.

**Explanation of State Expenditures:** The transition to a single-factor sales apportionment formula to determine the Indiana Adjusted Gross Income Tax will affect the administration of the tax. The Department of State Revenue will incur additional expenses to revise tax forms, instructions, and computer programs to incorporate the change.

**Explanation of State Revenues:** The proposed change in the apportionment formula is likely to decrease Indiana Corporate Income Tax revenues. The estimation of the magnitude of the decrease in revenues is under review.

***Background:*** The apportionment formula is used to determine Indiana Adjusted Gross Income for corporations whose income is derived from sources both within and outside Indiana. Currently, a three-factor apportionment formula is used to determine Indiana Adjusted Gross Income. The formula includes property, payroll, and sales (also called receipts) to allocate business income to the state. The sales factor is double weighted. The current formula is shown below.

$$\left[ \frac{\text{Indiana Property}}{\text{Total Property}} + \frac{\text{Indiana Payroll}}{\text{Total Payroll}} + 2 \left( \frac{\text{Indiana Sales}}{\text{Total Sales}} \right) \right] \div 4$$

The bill would eliminate the property and payroll factors in the apportionment formula and the double weight of the sales factor. A corporation's adjusted gross income would be determined by a single-factor formula which measures Indiana sales as a proportion of total sales in the United States. The new formula is shown below.

$$\frac{\text{Indiana Sales}}{\text{Total Sales}}$$

Corporate income taxes are distributed to the General Fund and the Property Tax Replacement Fund. In FY 2004, \$443.1 M was collected in corporate Adjusted Gross Income Taxes.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:**

**Information Sources:** *Indiana Corporate Adjusted Gross Income Tax Booklet.*

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